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Is Cheap Money for the Farmer a Myth?

By E. N. BREITUNG

A Stirring Send-Off for *the* American Commission

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THE DINNER GIVEN BY MR. EDWARD N. BREITUNG TO THE AMERICAN AGRICULTURAL COMMISSION, APRIL 25TH.

Mr. Breitung and the other speakers at the dinner are seated directly beneath the picture in the center. Mr. Breitung is under the left of the picture, Secretary of Agriculture David F. Houston is under the right. Just in front in between is the head of Walter Scott, Premier of Saskatchewan, and following to the left of Mr. Breitung about the table are Senator Duncan U. Fletcher, Chairman of the Commission, who was the toastmaster; Senator T. F. Gore, Frank Bailey, Vice-President of the Title Guarantee and Trust Co., John Barrett, Director General of the Pan-American Union, and Walter Hines Page, the new Ambassador to England.

IS CHEAP MONEY FOR THE FARMER A MYTH?

By Edward N. Breitung

Is cheap money for the farmer a possibility or is it merely a pleasant dream to amuse and edify but accomplish nothing? This question is prompted by no carping criticism, but by an earnest desire to crystallize talk into action. No one can fail to be impressed by the activity and enthusiasm of those who are working for this desirable, in fact, necessary, object. But a practical working scheme is more needed than many adjectives, and a sound basis for reform is more to be desired than endless statistics.

The facts in the case are simple and clear. Alarmed at the steadily mounting cost of living, reformers and statesmen alike have turned to observe the source of living essentials—the farm. It is found that productive ability and capacity are limited by financial considerations. In other words the farmer pays about eight per cent for the use of money. Here is a hindrance to the free production of wealth that must be removed. The American farmer is at a handicap compared with his European brother. These are facts too well known to need repetition. The question is, what is to be done about them.

Pin most of our rural credit reformers down to a definite suggestion of reform and they still spout figures about the Raiffeisen, the Landschaften and the Credit Foncier. Not for a moment would I deny the advantage of studying in detail what Europe has done so much better than have we. But if the American farmer is ever to have cheaper money, some actual working basis for bringing about that much to be desired result must

be forthcoming. The essence of the thing is, how is it to be done?

Now it must not be supposed that the credit facilities of this country have been by any means a failure, or even especially poor. If banks are many and widely distributed as in this country, if they are willing to deal in transactions small enough to be within the reach of large numbers of people, many more transactions will be settled through them than would otherwise be the case.

"Indeed, the rapid industrial development of our country is probably due in no small degree," says Professor David Kinley, of the University of Illinois, in his "The Use of Credit Instruments," "to our system of independent banks and the facility with which we have permitted banks to be established. The small independent bank in the country community has felt that its interests and success were bound up with the interests and success of the community, and, therefore, has undoubtedly been willing to do more for the general interests than a branch of a large bank in some remote commercial center would have felt like doing, even if it had been justified in doing so. The small capital with which we have permitted banks to be established also has been a factor contributing to our rapid economic development, as well as to the promotion of the banking habit among our people."

To say that the thousands of small banks and trust companies throughout this wide land have not sought to develop the communities in which they are situated would be absurd. Considering

the fact that interest rates in a new and expanding country like the United States are bound to be higher than in an old, restricted, settled country like France it would seem on the whole as if the almost countless small American banks have fulfilled their function with notable success. If we wait until the country is settled as densely as France or Germany or Belgium money rates to the farmer and to the merchant, for that matter, will be lower as a matter of course, but you and I will be dead and our children also.

There is only one way to give the farmer cheaper money and that is to find cheaper capital to loan to him. Now the investor is not going to let his money go one whit cheaper than it is being invested now. Indeed the investor seems to be asking more every day. When the New England investor can purchase mortgage bonds of a great transcontinental railroad system to yield more than 4½ per cent and innumerable first mortgage bonds of highly profitable street railways, electric light, telephone, water power and other soundly established public utilities to yield 5 per cent or even more, he is not going to lend upon some small, remote Western farm for much less than the rate which the farmer now pays.

We have as yet failed to learn of any way by which cheaper money may be found for the farmer unless those who seek to supply it are willing to grasp a basic principle of modern banking. It is only by employing more credit and less actual cash that the sought for result may be attained. Cash will not go upon the farm at any less consideration than it goes there now. But there is a vast store of credit which may be drawn upon and which will enable those who are interested to supply the farmer with "cheaper money."

According to the latest and most accurate computation between 80 per cent and 85 per cent of all the business of this country is done upon credit rather than upon actual money consideration. Americans use checks more than any other people, and as education and intelligence increases there is a fairly steady increase in the use of checks. In all industrial communities exchanges are made in three ways: by direct barter; by direct money payment; and by indirect barter, or exchange wherein, instead of money, credit documents of some kind are given, which cancel one another partly or wholly, and so render the use of money necessary only for the settlement of balances, if at all.

These facts are well known but the deductions which may be drawn from them are not so well known. Wholesalers do perhaps 95 per cent of all their business upon credit, but who would say that all the larger earners in the community use even a small percentage of their credit? Everyone has heard of Lloyds, the associated underwriters of Great Britain, but men do not always stop to think that Lloyds is not a company with a great cash capital, but exactly what the phrase, "associated underwriters," signifies, a mobilization of the credit of many men. Of course, the mobilization, or association, of credit in this case is vast indeed, but there is no reason why it should not be extended on a like scale to other fields.

A corporation with a very small paid in cash capital might enter such a business as the farm mortgage field and loan money profitably to farmers at 4 or 5 per cent. But such a company would not enjoy public confidence for long even though it did please the farmer by obliging him at moderate rates. But the same company would possess the required degree of strength and public

confidence and also be able to extend accommodation at low rates and make a profit in addition if besides a moderate cash capital it also possessed a large credit capital, in other words the guarantees of many men possessing large earning capacity.

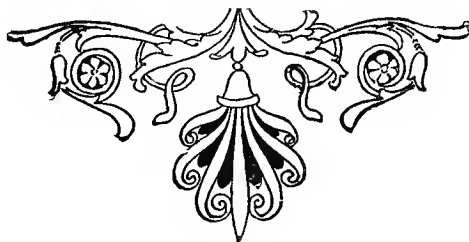
After all this is little else than the principle of underwriting. To underwrite means to subscribe one's name. To subscribe means to place one's name in writing to a document. But no one places his name to a document unless he is responsible. One banking firm would hardly have the cash resources to buy \$200,000,000 of bonds, no matter how good they may be. But ask two hundred firms in all parts of the world to agree to take a certain percentage of those bonds in case the securities are not purchased by investors and the risk is distributed much as insurance risks are distributed to the satisfaction and safety of all parties.

Distribution of risk of any sort is poor work indeed unless the business insured is itself promising and fairly safe. Certainly no one can argue that farm loans are not fairly safe investments. To no business could mobilized credits, or widely distributed personal guar-

antees, of numerous large earning individuals be better directed.

With a moderate cash capital and a great body of credit capital back of it in the form of personal guarantees any concern engaging in the farm mortgage business would soon have more business than it could handle, because it would have the strength of an institution with vast cash resources, such as the United States Treasury, and yet it could afford to loan money at low rates owing to the small amount of cash actually tied up. Every banker knows that a good endorsement on a note is one of the best assets he can find. But well-endorsed notes represent good credit and not metallic money.

The principle of employing credit capital as being cheaper than cash capital is not a new one. A bank which led the commercial world for four hundred years employed that idea. The greatest insurance system in the world to-day is built solely upon this same underwriting principle. The day is close at hand when men will see that an old, well-established principle of commerce and banking is the very means by which desirable ends may be attained in more than one direction.



A STIRRING SEND-OFF FOR THE AMERICAN COMMISSION

President Wilson's Special Investigators of European Agricultural Co-operation Given an Inspiring Dinner by Edward N. Breitung

Not a person present at the splendid banquet in the Hotel McAlpin on April 25, given by Edward N. Breitung in honor of the Permanent American Commission for the Investigation of European Agricultural Co-operation, could help feeling enthusiastic over the mighty project to be undertaken. More than 200 men and women were fortunate in being present and able to hear some fine speaking. The commission was to sail the next day, April 26, and is expected home on or about July 25 next. Its work abroad is regarded as highly important, as having a direct bearing on the problem of the high cost of living, which land banks and farmers' credit organizations along European lines may help to lower materially. Mr. Breitung, the host of the evening, is deeply interested in the work of the commission. He was appointed a delegate-at-large from the State of Michigan, but was unable to accept owing to the press of his business. He has already experienced much that the commission will undergo, as he made a special study of the subject of credit, land banks and agricultural co-operation in France with Ambassador Herrick a year ago. He tendered this dinner to speed the parting commission.

The commissioners appointed by President Wilson are Senator Duncan U. Fletcher, chairman of the Federal Committee; Senator T. P. Gore, Dr. Clarence J. Owens, managing director of the Southern Commercial Congress; Col.

Harvie Jordan, a director of the same organization; Dr. Kenyon L. Butterfield, Dr. John Lee Coulter, and Congressman Ralph W. Moss.

Mr. Breitung in welcoming his guests said:

"We are all aware that the movement to improve farm credits and production, and cheapen the cost of living, is one of the most important movements to-day.

"It seems to me that what we want is a practical solution of this question at as early a date as possible.

"Unless certain rules of mobilization of credit in finance are followed out it will be very difficult and perhaps impossible to give the farmer cheap money. I have worked out the principles which will, I think, give the result by the use of a small cash capital with a large credit capital.

"This may sound new, but it has some practical illustrations in other forms of finance through the ages.

"At some early date, I hope to have the pleasure of placing before you verbally and by printed pamphlet, this subject fully in detail.

"I trust that you will have a successful trip abroad, and that we may all meet again soon after your return."

Mr. Breitung as chairman then introduced Walter Hines Page, the new Ambassador to England, who promised to be on hand to welcome the commission when they reach London, saying:

"I should rather go as one of you than as one of me. I am a farmer—an

amateur farmer, to be sure, but still a farmer."

The chairman of the commission, United States Senator Duncan U. Fletcher, who acted as toastmaster, was one of the most enthusiastic and emphatic speakers. He said:

"The older countries, obliged to meet difficulties which surely confront us, have solved important problems to the wonderful improvement of agricultural and rural conditions here and we can learn from their experience and apply the results of our research in a way that will bring immense epoch-making benefits to our country."

It was unfortunate that Secretary of State William Jennings Bryan, who was to have been one of the speakers, could not attend owing to his hurried mission in California. Senator Fletcher read a telegram of regret which also tendered his heartiest support to the movement. Premier Scott, of Saskatchewan, gave a very bright message in behalf of Canada's interest in the report from the commission.

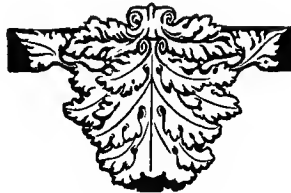
The most important speech of the evening was that by Secretary of Agriculture David F. Houston, who said that we have criminally and deliberately neglected the rural life problem in this country. A comparison of the opportunities to-day of the child ten miles from civilization with the child in the city will demonstrate this most graph-

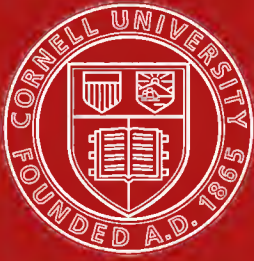
ically. He believes that the task is so difficult that it will take many years to solve.

One of the most entertaining of all the speakers was Frank Bailey, who as vice-president of the Title Guarantee and Trust Company, said he represented that most hated of all persons, the money lender and capitalist. He gave some interesting facts from this point of view. He is strongly in favor of a government-controlled body somewhat similar to the Credit Foncier and the European Land Credit Banks. He claims that the commission, and particularly the wives, will be able to enjoy themselves in France, as everything there is to be learned can be obtained in about two days, giving the remaining thirty or so for recreation in Paris. He gave a very clear description of the French amortization system of liquidating loans and compared them with our own inadequate facilities.

Senator T. P. Gore gave a very eloquent speech on the bright future of agriculture and the lower cost of living, and John Barrett, director-general of the Pan-American Union, predicted the future of South America as a necessary food supplier to the north countries.

On the whole the evening was a huge success in every way. The charming and generous host and hostess were toasted cordially and given heartiest congratulations by everyone.





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